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PERIODICAL

BUSINESS CRISES.

BY

John
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No. 5 WORTH STREET,
NEW YORK, AUGUST 26, 1873.

HON. A. S. HEWITT, Chairman, etc.

DEAR SIR:—On the day I was invited before your Committee, I was unable to remain until my name was called. I have, therefore, prepared a paper, and would be glad to have it submitted to the Committee. I also enclose a "Memorial of the National Land Reform Association," which has already been mailed to the Members of both Houses of Congress. That contains sufficient suggestions upon our Public Land Policy, and also some useful hints as to Finance.

If, on considering these communications, you shall desire at any future meeting of your Committee, to ask me questions, either to explain any doubtful point, or to test my general knowledge of the subject, I will cheerfully come before you at any time on being notified at the address above.

Respectfully, etc.,

J. K. INGALLS,
Corresponding-Secretary National Land Reform Association.

PERIODICAL BUSINESS CRISES.

THE real causes which produce periodical depression of business and destitution of the producing classes are to be sought in the imperfect knowledge of the general principles of civil and economic law, and in the chronic misgovernment resulting therefrom; rather than in any of those superficial circumstances, or matters of legislation, which have chanced to accompany or immediately precede those revulsions.

It is illogical, for instance, to refer them to the cost of our civil war, or the destruction of property by it; for nothing is more familiar to the student of history than the rapidity with which nations often recover from the devastations and losses of war, when the spirit of the people is not broken by oppressive and unequal laws. In our case, the loss must have been mainly replaced within eight years after its close, or else it is difficult to understand how there could exist an *over-production*, which throws labor out of employment. That it is not a disproportionate production, as claimed by Prof. Sumner, before the Congressional Labor Committee, is proved by the fact, that the depression is not confined to a class of interests or industries, but pervades all, with unimportant exceptions. Could the Professor's astute thought have been directed to the manifest disproportionate *distribution* which occurs from causes I shall attempt to point out, it would not have been so fruitless.

Theories of Protection or Free Trade may be applied in explanation of the suffering in special lines of business or of industry, but that they can effect such general consequences, is simply absurd, and even if such unreasonable results could be logically ascribed to them, we should still be no nearer a solution of our problem, because the nations representing the extremes of these respective theories are equally as great sufferers as ourselves.

That the increased employment of machinery has had the result of displacing labor to a considerable extent is doubtless true; but it is also true that the construction of such machinery and its requirement of constant superintendence and repair, has absorbed much of that displaced labor, while it has greatly cheapened and extended the consumption of the manufactures it has apparently over-produced.

Its present use is not so much to be deplored on account of the numbers it displaces from special employments, as for the unequal distribution of the results of its production, and which awards to labor not a moiety of what it produces, while to capital, in the form of profit, interest and rent, it surrenders the remainder, and thus enables great numbers to live upon the product without labor or service to society of any kind whatever.

We have, then, no recourse, but to look into our system of civil and economical legislation, to solve our problem. We are told, with great deliberation and show of knowledge, that "nothing can be done by legislation to relieve the present distress," and if we are compelled, logically, or otherwise, to accept this conclusion, as regards labor and the condition of the poor, may we not be allowed to enquire into the workings of that legislation which has been so lavishly bestowed, particularly during the last fifteen years, upon speculative schemes, to aid moneyed corporations and enterprising adventurers of every description; and to give fortunes to those who live by profits and interest drawn from the products of industry?

From the first our legislation, State and National, has been under the influence of a Lobby, constantly increasing in its unscrupulous and relentless grasp of power, and which has often become thoroughly organized for the promotion of schemes of aggrandizement wholly incompatible with the public good.

Had this description of legislation merely enriched the few at the temporary expense of the many, the effects might have been less deplorable. But, while doing this, it has also stimulated speculative greed in all departments of business, and developed the inflation of prices to such a degree, that the reflex shrinkage of prices, must necessarily bring ruin and bankruptcy to thousands, and loss of employment to millions. And must the unfortunate toiler now be told that legislation, which has done so

much to hasten and intensify this catastrophe, cannot be expected to do anything to relieve it? Surely workingmen, unschooled in the subtleties of our current "Political Economy," may be pardoned for having dreamed that a government, which had freely voted such subsidies of land and money to private corporations; such franchises, as actually abdicated its own right of "Eminent Domain," might devise some practicable relief to the idle hands and starving mouths of those who had produced the wealth thus handed over to organized rapacity.

I am fully aware of the dangers and difficulties which attend legislative interference in questions of this nature. Had our remonstrances for more than a quarter of a century been heeded, the immense domain, now held by railroad corporations, or organizations growing out of land grants, would have been in the hands of hardy pioneers, whose identity of interests with the best good of the nation, and the independence which self-employment begets, would have been a perfect safeguard and barrier against the extreme agitation in business or in politics which now threatens the stability of our institutions. Abundant supply of food would have been secured; a steadily increasing market for our products of the shop and factory, and a healthful, because stable, growth of all our industries.

At present, it would seem useless to attempt giving employment to labor where it is. Capital cannot, or will not. Government cannot, if it were disposed, without assuming control of the land which is the final source or means of all useful employments as of all wealth. Many of the industries now carried on in cities are not only useless but harmful to society; and serve no earthly purpose but to encourage the accumulation of the populations in cities and large towns, already swelled to a monstrous disproportion to that of the rural districts. It is possible, however, to do something, in the repeal of laws now existing, which, in the selfish interests of corporations, and large ownerships of the soil, bar the way to the cultivation of the land. It is downright insult to the poor to be told that they "would not go upon the land if it were given them," when railroad corporations, to whom the land has been given, by the millions of acres, are allowed to put a rate of from three to ten times the government price per acre upon the land the poor require. Their right to occupy those lands, in quantities, limited to their need and ability to cultivate and improve, should never

have been questioned by our government, or interfered with in any way, except to define and regulate it. The immense donations of these lands to soulless corporations and oppressive monopolists, was a mistake which will take generations of suffering to remedy.

In relation to the existing depression of business, it is evident to me that the panic, which has now continued some five years, is to be mainly accounted for on general principles. That similar crises have occurred for centuries as stated by parties before the Congressional Committee is a matter of history, and that they return with a *periodicity* which almost indicates the existence of a "natural law," as suggested by Prof. Bartolemy Price, there can be no question. The present writer has lived through six of those crises, and remembers with vividness, the consequences of them all, except, perhaps, the first, upon the poor and industrious, with whom his fortunes have, in the main, been cast, and for whom his sympathies remain active. They may be designated as those of 1819, 1829, 1837, 1847, 1857 and 1873. This last crisis, but for the war, the adoption of a National Currency, and other disturbing influences, should have occurred in 1866 or 1867, and, at the present or following year, would have been ready to occur again, so that we now are really experiencing the reaction belonging to the two periods.

This regularity of return, indicates, doubtless, a cause, wholly independent of any legislative action on tariffs or finance, the war or the introduction of machinery, all of which causes have at most had but the effect of disturbing or delaying, not turning aside the periodic issue.

The writer believes that he can point out an efficient cause, and also show that its removal, or great amelioration, if desirable, lies largely within the range of National Legislation, and legislation too, which shall be instrumental in repealing and modifying existing laws, rather than in making new and untried experiments.

I will commence with propositions, accepted and familiar to all students of Political Economy.

First—The materials of all wealth originate primarily in the earth.

But, *Second*—It is only by the employment of labor that they can ever be made to constitute true wealth.

And, *Third*—All who do not possess property in the land, or

ready access to it, must draw their subsistence from wages received directly or indirectly from the proprietors of the soil. [See M. Garnier, "View of Smith," etc.]

As stated by Adam Smith, "the produce of labor constitutes the natural recompense or wages of labor." Mr. Ricardo, who seems not to have understood that the monopoly of the land was the creature of civil, not natural law, held the natural rate of wages to be a sum which would barely support the laborer, and enable him to reproduce his kind. On the contrary, however, until property is assumed in the land by the strong in muscle or brain, the *whole* produce of labor belongs to the laborer and is his natural reward. But, as Dr. Smith says, "as soon as the land becomes private property, the landlord demands a share of almost all the products which the laborer can either raise or collect from it." From this experience, and this artificial condition of labor in relation to the land comes all the fallacies of the "usufruct of wealth," and all those customs and laws which exact and sanction usury or interest, speculative profits, and incomes from the mere possession of wealth.

Society, by its civil laws and positive enactments in regard to real estate, has sanctioned and reinforced this assumption or usurpation of the elder and stronger brother, instead of protecting the interest of the minor and weaker. But the time has now come, especially in this republican land, which has embraced the theory of making all "equal before the law," to take the administration out of the hands of him who has so grossly violated his trust, and re-apportion this patrimony in the interest of all.

The result of this assumption of private control over unlimited extent of the soil, is first, to enable the owner to exclude from its occupancy or cultivation, all other persons, who will not pay him tribute in money or in kind. This removes him entirely from the operation of the law of competition in the exchange of services, while the wages laborer, as Mr. Thornton has shown, is alone subjected to a forced and unnatural competition. Land monopoly places a "monopoly price" upon everything produced or gathered from the land. I am aware this point is denied by writers who have followed Ricardo, but I am also aware of the specious, not to say superficial reasonings, which they employ to evade a point Dr. Smith made irrefutable.

Accumulations of wealth (or stock) under the operation of

this arbitrary control of the soil and the ability to purchase into this class monopoly, has given to money its unwarranted power to obtain an income for mere time use. Now, while the accumulations thus withdrawn from the productions of labor are constantly returned to business, by being reinvested in productive industry and healthful enterprise, the hurtful consequences which follow are not apparent, but, as the process of accumulation and absorption goes on, extravagance and speculation gradually develop themselves, until they assume absolute control of all industry as well as trade. Confidence is then weakened. Capital is withdrawn from investment. Prices fall, and a general shrinkage of values of all the products of labor, and, necessarily, of wages, takes place.

The term of these crises are sometimes considerably extended, and their results intensified, by the employment of an expanded circulating medium and of business credits. This reacts upon the real estate market, running up lands in favored locations to fabulous prices, and so, when the extreme has been reached, there being no farther recourse, the crash comes. With the day of payment, property has to be sacrificed to meet obligations, shrinkages take place, which fall *wholly* on that portion of the capital employed which is not subject to the leins of secured debt. The ruin of the debtor is completed, and to the loss of all creditors who are unsecured. The means of employing labor are lost to those who would employ it, and the laborer is thrown out of work. Now, this crisis, which brings such disaster to business and suffering to labor, becomes the harvest time of all such capitalists as have managed to keep their credits well secured; properties often falling into the hands of the parties who sold them, at one-half the price originally paid.

Dr. Smith describes such capitalist as a "*person who has a capital from which he wishes to derive a revenue without taking the trouble to employ it himself.*" ["Wealth of Nations," c. 4, closing paragraph.] In other words, one who wishes to obtain the services of others without rendering any service himself in return. By the time these crises occur, this purpose has become a mania—to derive an income from labor without even giving it employment.

It will be found that these crises have occurred since the formation of our government (and Mr. Horace White says, for the last two hundred and fifty years), at quite regular intervals of

about ten years, which neither protective legislation, free trade acts, change of financial systems, nor even very destructive foreign or civil wars have been able greatly to vary. Now, this period is about the same as that in which a debt at seven per cent. per annum, compound interest, becomes *doubled*. That is to say, that if the whole capital of the nation is loaned at seven per cent., and the interest compounded, in a little more than ten years the entire capital of the country will be required to pay its own interest. Hence, repudiation of the principal becomes inevitable, or else the endless perpetuity of the debt, absorbing the complete wealth of society in every decade. Fortunately for mankind, the former obtains to a large extent, and thus periodically, through extensive bankruptcies and suspensions, the clogs are removed from the wheels of industry and of business, and they are allowed to move on again, till the return of another period.

It is important to distinguish, in the use of the term "capital," between that which is actively, or productively employed, and that which serves the possessor in deriving a revenue from it without taking the trouble to employ it. The man who puts his property into some industrial or commercial business, accompanies it with his personal efforts in administration, and other useful service. He assumes risks and responsibilities which justly entitle him to share liberally in the production resulting; but the secured creditor does nothing of this, and is no more entitled to a share of the results, than if he had placed his gold with a Safe Deposit Company, and for which he would have had to pay, instead of receiving a premium. This distinction must be borne in mind, when we refer to the losses of capital sustained in these crises. It is the capital employed in business, or which has been loaned without security or with imperfect security, which has been swallowed up. The fully secured capital, on the other hand, has not suffered; but has relatively, at least, been greatly increased by these revulsions.

Mr. White is evidently misled by his references to the failures of the last five years. The whole number of bankrupt business firms may show not much over five per cent. He does not say that it shows only five per cent. of the capital previously employed which has been wiped out during that time. An estimate of the general loss to the country through failures, suspensions of Banking, Insurance and Railroad Companies, and vari-

ous speculative enterprises, would probably treble that rate, and, taken in connection with the reduction of the capitals of corporations, firms and individuals still remaining solvent, with foreclosures on properties, which have not been sold for enough to meet the mortgages, and all those sums previously paid on property which has been lost on foreclosures, fifty per cent. would be a much nearer estimate to the amounts cancelled without consideration than five per cent. Statistics on all these items would be difficult to obtain, but that losses in the various forms in which they have occurred constitute a large proportion of the capital employed in 1873, does not admit of question.

To show with greater distinctness, the operation of the principle which produces these crises, let us suppose that, instead of the large proportion of the capital of the country, which is let out at interest, the land should be so loaned; and further suppose that, instead of the annual percentage being paid in money, it was stipulated to be paid in kind. That, as interest on money is paid *in money*, so the rent or interest on land should be paid *in land*. A man borrowing land on such conditions, would, in a dozen years or so, pay back as interest all he had borrowed, and must of necessity, repudiate the principal—become bankrupt in land. For it is evident that in the period in which the payments of interest would amount to a sum equal to the principal, an amount of land equal to itself, would be required to be returned to the owner for its own use; and, as the amount of land in any town, state, nation, or the world, is a fixed and definite one; the operation of any such stipulation, as a rule, would be impossible, and besides producing untold embarrassment and suffering, must end at last in repudiation. A system of contracts like the above, would be held in all courts as invalid, because they involved conditions well known to be impossible.

But the operation of our credit system, and payment of interest on capital to those who take no care in its employment, virtually involves the same consequences. By the accumulations of interest upon a given sum, the possessor can purchase a given amount of land in every period, corresponding to the amount of the principal invested. This enables the capitalistic class, as distinguished from the industrial or commercial class, to control the ownership of the land just as effectually as the titled nobility of any country ever did. Already in our older states, the number of landholders are rapidly decreasing, although the general

population, particularly in cities, is on the increase, thus continually augmenting the dependent or wages class, and rendering any emancipation therefrom more and more hopeless.

Access to cheap lands has, on each recurrence of a crisis, heretofore opened an avenue to our surplus labor when thrown out of employ, and also extended the market for our manufactures, thus operating both ways, greatly to relieve the depression. But all our great railway facilities have not kept pace with the rapacity of the land-monopolists, and a settler now, to obtain public land, must take himself twenty or thirty miles from any thoroughfare, and wholly out of social and congenial life.

All our boasted improvement in facilities for travel have not helped the dependent laborer. His natural powers will carry him as far as his days' wages will; transport him on our subsidized railroads.

Government may wisely repeal all such laws as facilitate the alienation of the public lands. It may refuse to sanction contracts pledging the homestead for debt, or to enforce the collection of any debt, the amount of the principal of which has been once paid in interest. It may provide for rapid payment of the public debt, or its change from an interest-bearing to a non-interest-bearing one.

In fact, the war debt has already been repaid, much of it has been twice paid, and some of it has been three and four times paid, in the form of interest and premiums. To legislate so that this species of property may be maintained at par, after being three times paid, while all other property has depreciated one-half, or more, is to unfairly discriminate between classes of people who hold different kinds of property, and in favor of those who render no service to society. That the public faith should be held sacred; that the validity of contracts should be scrupulously respected; none will deny. But public faith is due to the humblest as well as to the proudest of its citizens, and as fully to a holder of a dollar treasury note as to a holder of a government bond. If either cannot be paid without ruin to the other and the people at large, the situation is one that demands compromise and composition.

The taking or paying of interest has been condemned by every moralist, from Aristotle and Moses to John Ruskin, of our own time. In every seven years, Moses, the great Jewish lawgiver,

provided for the cancellation of all debts, and at the fiftieth year for the re-apportionment of the land. In our times of rapid accumulation, debts on interest should be held cancelled at least after ten years payment of interest. It is seen now on economical principles, that the system of usance is as destructive to our material prosperity, as it has ever been regarded detrimental to morals and the discharge of human duty. Government then, should discourage, not sanction, it, and clearly define the kind and nature of the contracts it will attempt to enforce.

The superstition of the trader or money-lender should no more form a basis for legislation than that of a religious devotee, who wants God put in the Constitution, that his views of what he conceived to be His will may be enforced upon the people.

The complete remedy of the great evils of our industrial system, the efficient limitation of private property in land, or the full assumption of its control, by the state, county or township, will require the concurrent action of the several states; but much can be done by the general government to discourage and render less baneful the tendencies here pointed out. While our system of land monopoly remains, and the interest on money upheld mainly from that basis continues, there should be required from the states a uniform system of bankruptcy as required by the Constitution, which will give every facility, in an inexpensive way, and not to the ruin of debtor and creditor, in the interest of officials and attorneys, as under our late bankrupt law, to effect composition between debtors and creditors; so that the failures this system makes inevitable in returning periods should be as evenly distributed as possible over the whole term, and not be allowed to attain the prodigious proportions, which derange all stability of business, and bring disaster and ruin on the industrious and frugal man of business as well as the reckless and extravagant.

Much could be done by refusing to enforce claims for the payment of interest, except where payment of the principal was withheld for the purpose of injuring the party to whom the debt was owing, or for arrears of wages not exceeding one month. Granting credit and incurring debt are in no wise necessary transactions. They give no increase to social wealth, nor any healthful stimulus to productive industry. The gov-

ernment may rightfully refuse to rectify the mistakes which people make as to whom they will trust, or the value of the securities they may take. Laws in regard to exemption of homestead and necessary household effects, with mechanics' tools, etc., exist already in many states, and their spirit should be incorporated into our National Code, so that its laws should never be employed to reduce its citizens to beggary and want, in consequence of being caught in the meshes of a system from which bankruptcy opens the only door of escape, and the period of whose return can be foretold with an accuracy almost equal to that which predicts the return of the tides.

A measure I can largely endorse is one suggested by the bill introduced by Mr. Wright, of Pennsylvania, at the last session of Congress, to promote settlement upon the public lands. Whether government may properly assist the industrious poor, who seek relief by securing gratuitous transportation, over roads it has paid to construct, and then bestowed on private corporations, to be run for private gain, will doubtless be disputed by those in whose interests these lavish subsidies have been made; but we can hardly expect such objections to weigh with those who feel themselves thus deprived of their natural birthright, and are so deeply suffering in consequence.

If Congress shall see fit to go further and supply the settlers with means, as Mr. Wright's bill proposes, to begin a home and achieve independent self-employment, and thus emancipate themselves from servile labor, it should so carefully guard its measures as that there will be no opportunity that the aid thus rendered shall be perverted or misapplied.

In this connection, I wish to call attention to a recent decision of the Department of the Interior in regard to the right of pre-emption by actual settlers on certain unsold railroad lands, which, by the acts chartering those companies are re-opened to settlement under the pre-emption act. The railroad companies interested in the decision have already signified their intention of disregarding or contesting that decision. It is publicly reported that at least one of those companies, viz: "The Kansas Pacific," has anticipated the consequence of the decision by having transferred its lands to a portion of its managing members, who have gone outside and formed an organization to bargain with themselves as was done by the "Credit Mobilier," of infamous notoriety.

I would most earnestly urge Congress to adopt immediate legislation which will so reinforce the decision of Secretary Schurz on that question, as will make it impossible for any court to entertain a doubt as to its lawfulness, and forever prevent the success of so stupendous a public swindle, as that said to have been devised by the companies.

It is a matter of public notoriety, that our Patent Laws are no longer serviceable as a means of encouraging useful invention; but are mainly availed of to foster monopoly, and promote rapacious schemes, through combinations, which use them to terrorize those employed in legitimate business through fears of vexation and costly litigation. Those laws should either be wholly repealed, or so modified as to render monopoly of the manufacture, or of trade in patented articles impossible. This might be done by allowing the inventor to collect from those who made or sold a limited fee for a limited time; without interfering in any way with the regular course of competition in any business. As now interpreted, our Patent Laws are a source of immense evil, injurious to commerce and every sphere of industry, and constitute a nuisance, which should be abolished.

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